National Home Center News®

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Same Store Sales Changes (%)

	First quarter 1986	Fourth quarter 1985
Color Tile	3.1%	3.0%
Hechinger	2.0	– 2.0
Handyman	3.6	10.6
The Home Depot	2.0	2.3
Lowe's	8.0	13.0
Scotty's	2.0	5.2
Average	3.5	5.4

Source: Company reports. *NHCN* chart.

Average same store sales at six representative home center chains fell from 5.4% in the fourth quarter of 1985 to 3.5% in the quarter that just ended.

Industry sees strong '86 after mixed 1st quarter

By Phillip M. Perry
NHCN staff editor

NATIONAL REPORT — While shoppers exhibited lackluster buying patterns during the first quarter that ended April 30, many home center operators experienced a rebound in earnings.

The seeming contradiction was attributed to a combination of an easing of price pressures in key markets, and renewed attention to internal operations by companies that are now paying less attention to expansion strategies.

For six representative home improvement retailers, from which same store sales were available, sales rose an average of 3.5% in the quarter that ended April 30. The same group—Color Tile, Hechinger, Handyman, Home Depot, Lowe's, and Scotty's—reported same store sales increases of 5% for 1985, and 5.4% for the fourth quarter. Clearly, consumers have cut back.

Even so, some home center companies clocked impressive earnings gains. The Home Depot reported a 164.2%

(Continued on page 54)

Mr. HOW sells 5 Chicago warehouses to Handy Andy

By Gary S. Ruderman and Donald Longo
NHCN staff editors

CHICAGO — Handy Andy Home Improvement signed an agreement in principal June 4 to acquire the five Mr. HOW stores here and one under construction from Service Merchandise on July 1.

According to Ron Rashkow, Handy Andy chairman, the stores will remain open under a joint management agreement through June 30, at which time the Gurnee, Ill.-based home center chain will

(Continued on page 53)

Mr. HOW's flagship store in Schaumburg, Ill., is among five Chicago area Mr. HOW Warehouses acquired by Handy Andy this month. The Gurnee, Ill., chain also purchased one prospective Mr. HOW under construction. NHCN photo

Wickes inks Homecrafters deal pending reorganization approval

By Brad Altman
NHCN staff editor

LOS ANGELES — The 28 retail/builder home centers operated by Homecrafters Warehouse of Birmingham, Ala., would be folded into the 211-unit Wickes Lumber chain if an agreement in principle to acquire Homecrafters, signed by both parties June 1, is consummated in August as projected by Wickes.

As previously reported (*NHCN*, May 19), Homecrafters would use proceeds of the sale to resolve its financial problems. The company has been operating under Chapter 11 of the Federal bankruptcy code since December.

The acquisition is now subject to submission of a plan to reorganize Homecrafters and a disclosure statement to the Bankruptcy Court, and approval of that Plan by a vote of creditors and stockholders.

[Wickes isn't the only company vying for these stores, though. *NHCN* has learned that Stacy Building Materials, a $30 million chain of seven home centers in Alabama and Mississippi, made a bid of close to $35 million, primarily in cash, for all 28 Homecrafters stores the last week of

(Continued on page 4)

Scotty's plans test of video sales aid in 10 units this fall

By an NHCN staff editor

ORLANDO, Fla. — Scotty's became the largest company in the home center industry to step into the age of electronic shopping when it finalized plans here at the fourth annual Electronic Shopping conference to test a freestanding, 7-ft.-tall laser video disc kiosk that provides free video demonstrations for customers on an assortment of DIY projects.

Walt Disney's super-high-tech EPCOT Center provided the perfect backdrop for the Touche Ross-sponsored conference in late May which attracted over 450 executives representing retailers, manufacturers, bankers, communications

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Home center industry veterans Bill Matthews (left) of Lanoga and Dave Bryant of Scotty's were among over 450 delegates attending Electronic Shopping '86, a Touche Ross-sponsored conference on the future of electronic retailing. NHCN photo

FCC rules move to halt radio interference from garage door openers

By Laura Liebeck
NHCN staff editor

NATIONAL REPORT — If new rules governing the manufacture and operation of garage door openers are enforced by the Federal Communications Commission (FCC), the industry could be served a fatal blow, according to some manufacturers and officials of the Door Operator and Remote Controls Manufacturers Association (DORCMA).

Approximately half of the 16 manufacturers currently producing the components for garage door openers could fail under the weight of the new, stricter requirements, said Lawrence L. Meyer, president of DORCMA and vice president of operations for Genie Home Products, one of

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INSIDE

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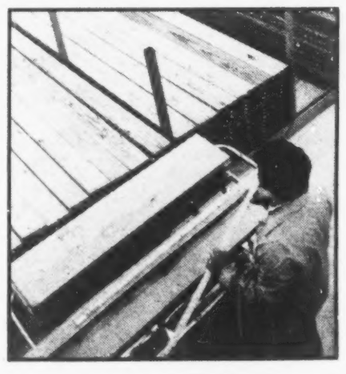

NEWSBREAKS

GROSSMAN'S EXEC JOINS PLYWOOD RANCH: Edward N. Ferland, a former divisional merchandise manager of Grossman's in Braintree, Mass., has joined Plywood Ranch, also based in Braintree, as exec vp for merchandising and operations. Ferland, 48, had worked for Grossman's for 15 years.

NEW HQ FOR TEXAS CHAIN: Foxworth-Galbraith Lumber will move to a new 40,000-sq.-ft. company-owned headquarters July 13 in northern Dallas.

INDUSTRY UPDATE

Builders Sq. opens seven units

SAN ANTONIO, Tex. — On May 22, Builders Square opened seven new warehouse stores, possibly setting a single day record in the industry.

The stores, all in the 100,000-sq.-ft. range, opened in the Braddock Hills and Pleasant Hills, Pa., suburbs of Pittsburgh; the Homewood and Melrose Park, Ill., towns around Chicago; the chain's third unit in Detroit; and stores in West Palm Beach and North Palm Beach near Miami.

Eighteen days earlier, the chain, which has a goal of opening 50 stores in calendar year 1986, opened three units in the Minneapolis-St. Paul market. The stores are located in the suburbs of Maplewood, Brooklyn Center and Bloomington, Minn.

Hechinger headlines AHMA show

CHICAGO — John Hechinger Jr., the newly-appointed president of Hechinger Co., will be the keynote speaker at this year's Hardware Show here.

Hechinger, 36, will deliver a speech entitled, "The New Success Criteria," on Monday, Aug.11 at 8 a.m. in the Lindheimer Room at McCormick Place, the site of the show.

"The name 'Hechinger' is synonymous with retailing excellence, and we are extremely pleased John Hechinger will be headlining our educational program," said William Farrell, executive director of the American Hardware Manufacturers Association, the show's sponsor.

Erb to split common stock

BIRMINGHAM, Mich. — Erb Lumber, the $190 million chain of building materials stores, said it intended to undertake a 4-for-1 split of its common stock. The split would be payable July 11 to shareholders of record as of June 16.

The action is contingent on shareholder approval of an amendment to the Articles of Incorporation increasing the authorized common stock from 3 million to a total of 10 million shares.

The company said the planned split is being taken to facilitate ownership of its common stock, and to bring its market price within a trading range more attractive to individual investors. Erb stock has been trading recently at over $60 per share, having risen from $35 earlier this year.

Most recently, the company found it necessary to repurchase 45,900 shares of its outstanding common stock, in order to keep them from being sold on the open market (*NHCN*, March 24.)

Far East importer buys out Lowi

PASADENA, Calif. — The three-unit, family-run warehouse home center chain founded by Sol Lowi 16 years ago in North Hollywood, Calif., was bought in late April by STG Imports, a Pasadena, Calif., importer of doors, hardware and cement mixers made in Israel and the Far East. STG Imports' president A. Rami Lehavi said "we're not going to make any changes," adding that Sol Lowi and his children Irwin and Phyllis will continue to manage the company.

Town tries to halt Builders Sq.

BLOOMINGDALE, Ill. — The Village of Bloomingdale filed an appeal to halt construction of an 80,000-sq.-ft. Builders Square in this western Chicago suburb.

The April 28th appeal stems from a 1985 action by the village board to halt construction of a 15.6-acre shopping center with Builders Square as the anchor tenant. Urban Investment of Chicago and Zaremba Midwest of Cleveland—the developers—filed suit in Circuit (state) Court in May, 1985 to overturn the village ruling. A Circuit Court judge ruled February 27, 1986 in favor of the shopping center developer.

The village contends the shopping center complex, just 180 ft. from a development of $150,000 homes, does not meet the original use plan for multi-family units and convenience stores, according to Village Mayor Sam Tenuto.

The proposed Builders Square site is across the street from a Mr. HOW Warehouse and a Service Merchandise store under construction. Tenuto said the competitor's site was on recently annexed land planned as commercial.

An attorney for the Builders Square developers expects settlement in 11 months.

If you spot home center industry news, call the *NHCN* NEWS HOTLINE:

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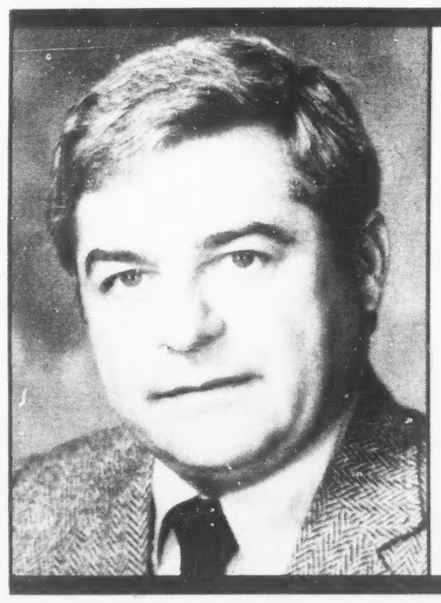
Ex-Kindt coo named exec vp of Minn.'s United Building Centers

By an NHCN staff editor

WINONA, Minn. — Bob Drumm, chief operating officer of the nine-store Kindt Corporation until its acquisition by Wickes last month, has been named executive vice president of United Building Centers, based here.

Drumm, who joined UBC in May, worked at Kindt for 10 years, first as director of marketing. He was named coo in 1984 when the Lomira, Wis.-based company was purchased by Edward Hines Lumber.

UBC president Daryl Nagle told *NHCN* that Drumm will serve as chief operating officer of the 115-store division of Seattle-based Lanoga, which also owns 11 Spenard Builders Supply units in Alaska and 14 Lumbermen's stores in Washington and Oregon. Drumm will oversee operations and marketing functions.



"The volume of our division is about 75% greater than it was two years ago before the Peavey acquisition. It's a bigger job [running the company]. I can't wear two hats anymore."

—**Daryl Nagle,** *UBC president*

The executive vp post that Drumm fills is not a newly created position, but it has been vacant since Nagle was promoted two years ago.

In 1984, Lanoga acquired 23 Peavey retail stores which were assimilated by the mostly rurally-located UBC. Last year, the company added five Payless Cashways stores in Iowa and Minnesota to its fold.

"The volume of our division is about 75% greater than it was two years ago before the Peavey acquisition," said Nagle. "It's [running the company] a bigger job. I can't wear two hats anymore."

Knoll opens third Seattle unit, promoting full-service strength

By an NHCN staff editor

WOODINVILLE, Wash. — Knoll Lumber & Hardware has opened its third unit here in this high-growth community northeast of Seattle.

Craig Knoll, president of the independent retailer which posts an estimated $7 million yearly volume, said the new 2½-acre facility contains a 9,600-sq.-ft. showroom and a 10,000-sq.-ft. outside covered shed containing lumber, plywood and other commodities.

Knoll Lumber's other units are in Kenmore and Mill Creek, Wash.

Grand opening for the Woodinville outlet was held in late April. Knoll's contractor-to-consumer ratio is split evenly. Cash customers get 10% off list and charge account customers who pay the balance due monthly receive a volume-based discount.

One of Knoll's merchandising strategies that sets it apart from its competition is its custom-home packages. Knoll offers nearly two dozen home designs. Financing is available on the home packages as well as on any project over $1,000. Line drawings and floor plans are contained in a catalog.

Despite its strong contractor base, Knoll is attempting to pursue the DIYer. The catalog notes that Knoll has "traditionally bought our lumber and plywood based on appearance and structural integrity, not on price alone."

Knoll offers free delivery within a 50-mile radius. And, supporting its DIY-emphasis, many displays in the stores include strong point-of-purchase take-away brochures.

There is also a customer-service desk. Knoll's product mix consists of name-brand goods. The independent's focus is on promoting its full-service strength rather than to join the low-price discount battle now beginning to stir among the big DIY chains in Washington.

Specialty wholesaling provides niche for L.A.-based Stanline

By Donald Longo
NHCN staff editor

NORWALK, Calif. — Due to the drive by many retailers to buy a growing part of their product mix direct from manufacturers, independent building material wholesalers are supposed to be an endangered species.

But, Stanline, the $55 million wholesaler based here, has flourished by carving out its niche as a distributor of high quality, specialty building products to a diverse customer group that includes warehouse-type home improvement stores as well as conventional home centers, lumber yards, hardware stores, paint dealers, prestainers, furniture and cabinet manufacturers, and commercial and specialty subcontractors.

"We see the trend developing back towards two-step distribution partly because of the disastrous year home centers had last year, especially the warehouses," said Stanley Frahm, president and chief executive officer of the company that went public late last year.

That trend back to two-step, according to Frahm, is being fueled by many retailers who are finding they can increase their inventory turns and raise gross margins by relying on the value-added services provided by independent wholesalers.

"We turn our inventory 11 times," noted Frahm in an interview with *NHCN* last month, "Whether you're in retail or distribution, that's a very significant key to profitability."

The crux of the matter, noted Frahm, is that somebody has to handle the warehousing and distributing functions. "Whether the retailer does it, or the distributor, or the manufacturer, someone has to bear those costs," he said.

The efficiencies in being able to supply a variety of

(Continued on page 8)

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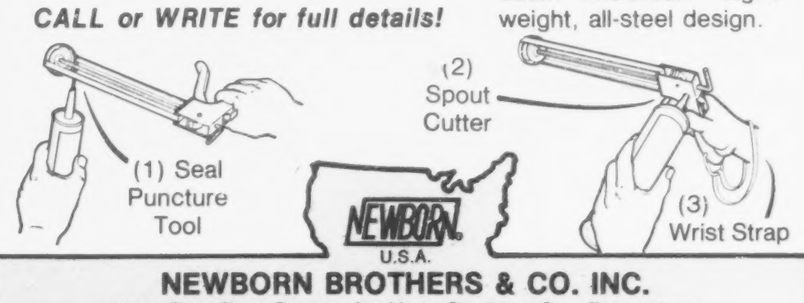

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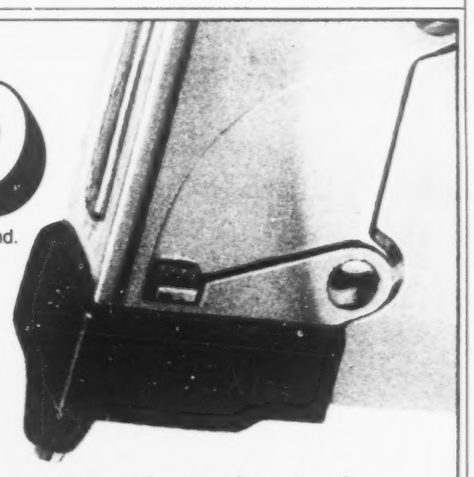

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Former home center executives plan to open office supply warehouse chain

By Elizabeth Brent
NHCN staff editor

BOCA RATON, Fla. -- Three former home center executives, Pat Sher, Jack Kopkin and Steve Dougherty, have formed a new company in which they will attempt to apply the warehouse concept to the office supply business.

Called Office Depot, the new firm has signed its first lease and hopes to open two units simultaneously in southern Florida in the fall, one in late 1986 and one in the first quarter of 1987.

The warehouses will be priced very competitively and stock 3,000 items. They will sell office supply equipment including typewriters, shredders, copy machines, stationery and limited office furniture.

"We feel that this is even more reproducable than HomeOwners Warehouse because the warehouses will only be between 15,000 sq. ft. and 20,000 sq. ft. and so its easier to obtain the real estate," said Pat Sher, chairman of Office Depot and founder and former chairman of the warehouse home center chain that is now called Mr.HOW Warehouse. "Office Depot will target the consumer and the small to medium business operator."

The idea for the company came from Jack Kopkin who saw the potential for office supplies while working for Grossman's Southwest in California as general merchandise manager. The Ventura and southern Californian stores operated as membership club warehouses, and sold close-out merchandise including office supply equipment and blue jeans.

"I've spent the last year researching what areas of retailing we can exploit in the warehouse atmosphere," said Sher. "It's not as complex a business to learn as the home center business. The potential is almost unlimited because its not being done."

Membership warehouses have recognized the potential of office supplies and stationery which now form 10% of their annual sales according to *Discount Store News*, a sister publication of *NHCN* that serves the discount store industry. A few manufacturers have started to package merchandise in the quantity suitable for warehouse merchandising.

Corrections

The "Top 150" chart in *NHCN's* census issue of May 5 listed Wickes Cos. as operating 212 retail building material outlets. The totals neglected to include the Builders Emporium units, as listed on the subsidiary chart at the bottom of the Top 150 chart. BE operated 63 units at the end of 1985 and 59 at the end of 1984.

An article in the May 5 issue of *NHCN* indicated that Sutherland Lumber, Kansas City, Mo., had closed a House Mart warehouse store in Tulsa, Okla. The company later noted that it had never operated a warehouse unit in that city, and that it had not closed a store there. The firm's warehouse units had been closed in Indianapolis, Ind.

Trustworthy Hardware, a member of the Liberty Distributors wholesale buying group, is in Waseca, Minn. The location of the unit was incorrectly identified in a photo caption on page 1 of *NHCN's* May 19 issue.

Stories appearing in *NHCN* on May 19 and June 2 broke out advertising dollars spent by paint dealers in 1985 as tracked by the Television Advertising Bureau. In those stories, Standard Brands was identified as having spent $6.9 million. Subsequent documentation from Standard Brand's chairman, Stuart Buchalter, revealed that of the $13.3 million the chain spent on total chainwide advertising, $1.5 million was spent to promote its "Decade" paint line alone on TV.

Buchalter also supplied *NHCN* with recently-released market research done by the *Los Angeles Times* and *San Diego Tribune* showing that, in southern California, Standard Brand's ranked No. 1 in share of market for both exterior and interior paint when brand and store preference were compared.

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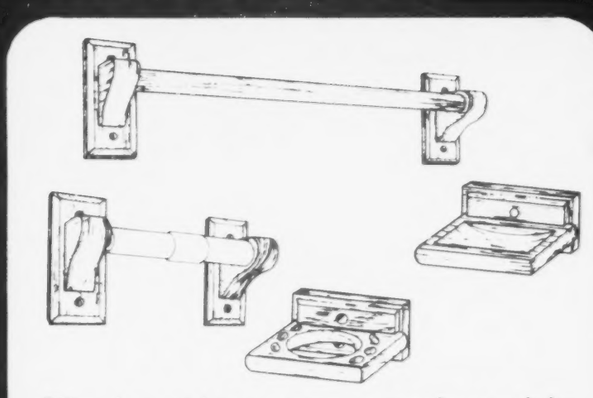
bath decor



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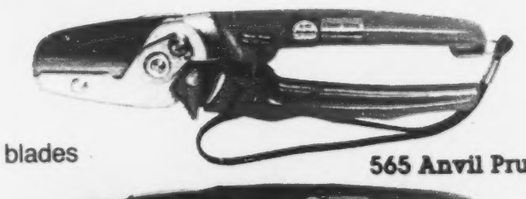

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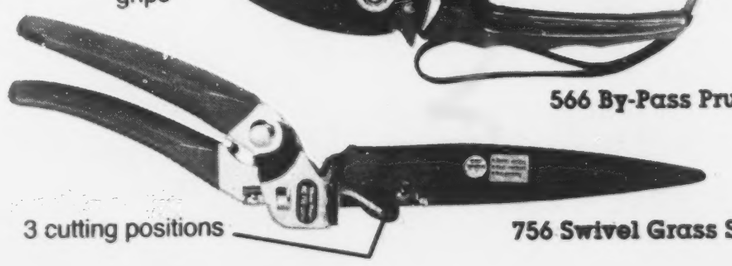

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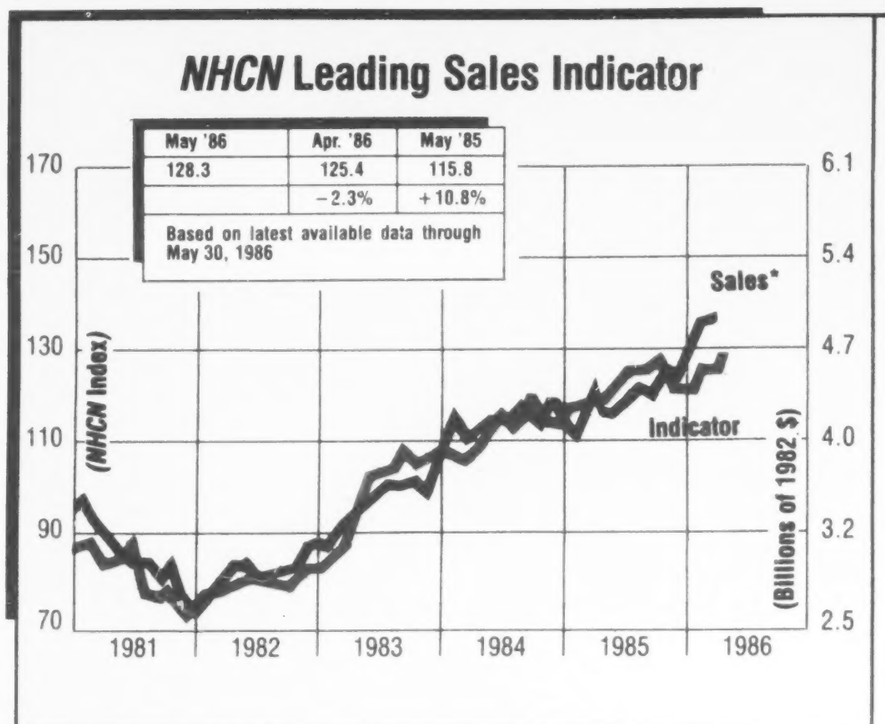


*—Monthly retail trade building materials and supplies in 1982 $.

Indicator—Represents projected level of retail trade building supply activity four to six months out from current months. Data based on real personal income, housing starts, resales, prime rates and other data.

Economies of East North Central states outpace national average

By Richard E. Mount
Special to NHCN

Economies of the East North Central (ENC) states are beginning to grow faster than the national average, now that the recovery is shifting to business investment and consumer durable goods. This region has an industrial concentration in capital goods, automobile and steel production.

Building material sales will rise 17% this year in the region, while nationally they will average a 15% gain. In 1987, sales will increase 9% for the region, 8% for the country. This represents a change from last year when building material sales in the region rose 5%, the nation 8%. Ohio will do the best, Indiana the worst.

Richard E. Mount

Regional economy mixed

Demand for capital goods will accelerate in the second half of 1986 and throughout 1987, boosting employment, housing and building material sales in the ENC states. The recovery in capital goods is the major reason for the region to be on the mend in 1986 and 1987.

A weaker dollar will help domestic production by raising exports and reducing imports. The economy and demand for durable goods will accelerate because of lower interest rates and fuel costs. Proposed tax reform will help business equipment investment by shortening depreciation schedules.

Construction machinery production will do well. The

(Continued on page 13)

Home Center Industry Regional Outlook

		1985			1986				1987			
		QII	QIII	QIV	QI	QII	QIII	QIV	QI[p]	1985	1986[p]	1987[p]
***NHCN* Leading Sales Indicator** (January 1980 = 100)		**116.0**	**121.0**	**123.4**	**124.1**	**126.4**	**130.9**	**135.0**	**138.0**	**118.5**	**129.1**	**139.3**
Building Material Retail Sales												
Current	**Total U.S. ($ millions) SAAR**	**53,512**	**53,736**	**56,976**	**60,944**	**61,005**	**62,165**	**63,008**	**65,050**	**53,841**	**61,781**	**66,655**
	New England	2,902	3,238	3,477	3,839	3,819	3,873	3,881	3,994	3,038	3,853	4,077
	Middle Atlantic	7,119	7,408	8,306	8,489	8,535	8,629	8,720	8,977	7,269	8,593	9,165
	East North Central	8,575	8,603	9,048	9,666	9,663	9,878	10,062	10,441	8,381	9,817	10,742
	West North Central	3,860	3,841	4,000	4,278	4,252	4,320	4,354	4,482	3,747	4,301	4,591
	South Atlantic	11,139	10,868	11,837	12,554	12,646	12,918	13,131	13,569	11,262	12,812	13,931
	East South Central	2,912	3,056	3,182	3,516	3,569	3,674	3,774	3,949	2,964	3,633	4,078
	West South Central	6,240	5,822	6,041	6,143	6,101	6,154	6,124	6,297	6,090	6,131	6,422
	Mountain	2,606	2,620	2,763	2,938	2,959	3,040	3,094	3,194	2,674	3,007	3,263
	Pacific	8,158	8,281	8,322	9,519	9,462	9,679	9,867	10,148	8,377	9,632	10,386
Constant	**Total U.S. (1982 $ millions) SAAR**	**50,990**	**51,209**	**53,765**	**56,604**	**56,100**	**56,600**	**56,800**	**58,060**	**51,055**	**56,526**	**58,605**
	New England	2,765	3,086	3,281	3,566	3,512	3,526	3,499	3,565	2,883	3,526	3,585
	Middle Atlantic	6,783	7,060	7,838	7,885	7,848	7,856	7,861	8,012	6,897	7,863	8,058
	East North Central	8,171	8,198	8,538	8,977	8,886	8,994	9,071	9,319	7,954	8,982	9,444
	West North Central	3,678	3,660	3,775	3,974	3,910	3,934	3,925	4,000	3,556	3,936	4,036
	South Atlantic	10,614	10,357	11,170	11,660	11,630	11,761	11,837	12,111	10,687	11,722	12,249
	East South Central	2,775	2,912	3,003	3,266	3,282	3,345	3,402	3,524	2,913	3,324	3,585
	West South Central	5,946	5,548	5,701	5,706	5,610	5,603	5,521	5,620	5,779	5,610	5,647
	Mountain	2,483	2,497	2,607	2,728	2,721	2,768	2,789	2,851	2,537	2,751	2,869
	Pacific	7,774	7,892	7,853	8,842	8,701	8,813	8,895	9,057	7,949	8,813	9,132
Per Cent of U.S. Total												
Current	**Total U.S. ($ millions) SAAR**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
	New England	5.42	6.03	6.21	6.30	6.26	6.23	6.16	6.14	5.65	6.24	6.12
	Middle Atlantic	13.30	13.79	13.86	13.93	13.99	13.88	13.84	13.80	13.51	13.91	13.75
	East North Central	16.02	16.01	15.88	15.86	15.84	15.89	15.97	16.05	15.58	15.89	16.12
	West North Central	7.21	7.15	7.08	7.02	6.97	6.95	6.91	6.89	6.96	6.96	6.89
	South Atlantic	20.82	20.22	20.43	20.60	20.73	20.78	20.84	20.86	20.93	20.74	20.90
	East South Central	5.44	5.69	5.77	5.77	5.85	5.91	5.99	6.07	5.51	5.88	6.12
	West South Central	11.66	10.83	10.54	10.08	10.00	9.90	9.72	9.68	11.32	9.92	9.63
	Mountain	4.87	4.88	4.83	4.82	4.85	4.89	4.91	4.91	4.97	4.87	4.89
	Pacific	15.25	15.41	15.40	15.62	15.51	15.57	15.66	15.60	15.57	15.59	15.58
Industrial Production												
Index (1977 = 100)	Brick	87.5	91.3	88.7	92.7	93.1	94.2	94.1	92.4	88.5	93.5	91.1
	Cement	110.0	106.5	99.8	121.2	110.9	111.4	112.3	110.9	105.7	114.0	109.4
	Gypsum Mallboard	127.7	129.6	132.4	132.8	133.7	132.3	134.5	134.6	126.4	133.3	133.9
	Hardware	102.7	99.2	99.4	99.4	102.2	103.5	104.3	104.3	100.9	102.4	103.8
	Lumber Products	121.8	126.1	125.7	127.3	128.2	129.1	128.5	127.3	122.9	128.3	126.6
	Paint	106.0	98.2	100.2	100.6	104.7	105.9	107.1	108.2	101.9	104.6	109.1
	Plywood	137.1	144.3	142.9	145.2	146.2	147.6	147.2	146.3	138.7	146.6	145.2

Data: Department of Commerce
Bureau of Labor Statistics
National Association of Realtors
Department of Housing and Urban Development

The Home Center Industry Outlook runs in two parts, in alternate issues. The first part includes latest data on the General Economic Outlook; Residential Alterations & Repairs; and Retail Trade Activity. The second part includes latest data on regional building material & supply store sales; and industrial production. The *NHCN* Leading Indicator runs every issue.

SAAR—Seasonally Adjusted Annual Rate
p—projection
NHCN chart
Source: Merrill Lynch Economics for *NHCN*

BUSINESS WATCH

East North Central states economies surge

(Continued from page 12)
decline in the dollar will make imports more expensive, lower interest rates will spur investment, and as the current stock of machinery is nearing the end of its useful life, replacement sales will rise.

The automobile sector will provide stability to employment in the ENC region. Sales promotions in 1985 drew out sales for 1986 and 1987. Domestic promotion at the national level will decline from 8.2 million in 1985 to 7.5 million in 1986 and 7.2 million in 1987. But ENC auto production will be stronger than the national total. Honda is expanding capacity in Ohio, Ford is opening a new Taurus plant in Illinois and many new plants have opened in Michigan. Auto parts producers will raise regional employment.

Areas producing farm machinery will be weak. Dealers are cutting inventories and the agricultural market remains weak. A small upturn will develop in 1987, but the output level will be low.

Employment in the region will decline in steel producing areas. Major national markets for steel—auto, nonresidential construction, oil field machinery—will decline.

Outlook by state

The best ENC state for building material sales—up 20% in dollar volume—will be Ohio, with its concentration of capital goods and automobile industries. In 1985, resales rose 17%, housing starts 2%. Employment is up 3.5% from a year ago, and the unemployment rate has declined to 9.1%.

Michigan

In Michigan, building material sales will rise 19% this year. Capital goods industries will increase employment. But the large auto and auto parts sectors will not raise production. Resales increased 20% in 1985, and housing starts rose 19%. Employment is up 3% from a year ago and the unemployment rate is now 9.3%, down from 10.2%.

Illinois

Illinois' building material sales will rise 15% in 1986. The economy near Chicago is rebounding, but the southern part of the state is agricultural, manufacturing farm machinery. Resales rose 15% last year and housing starts 14%. But employment is unchanged from a year ago, and the unemployment rate has risen to 10.1%.

Wisconsin

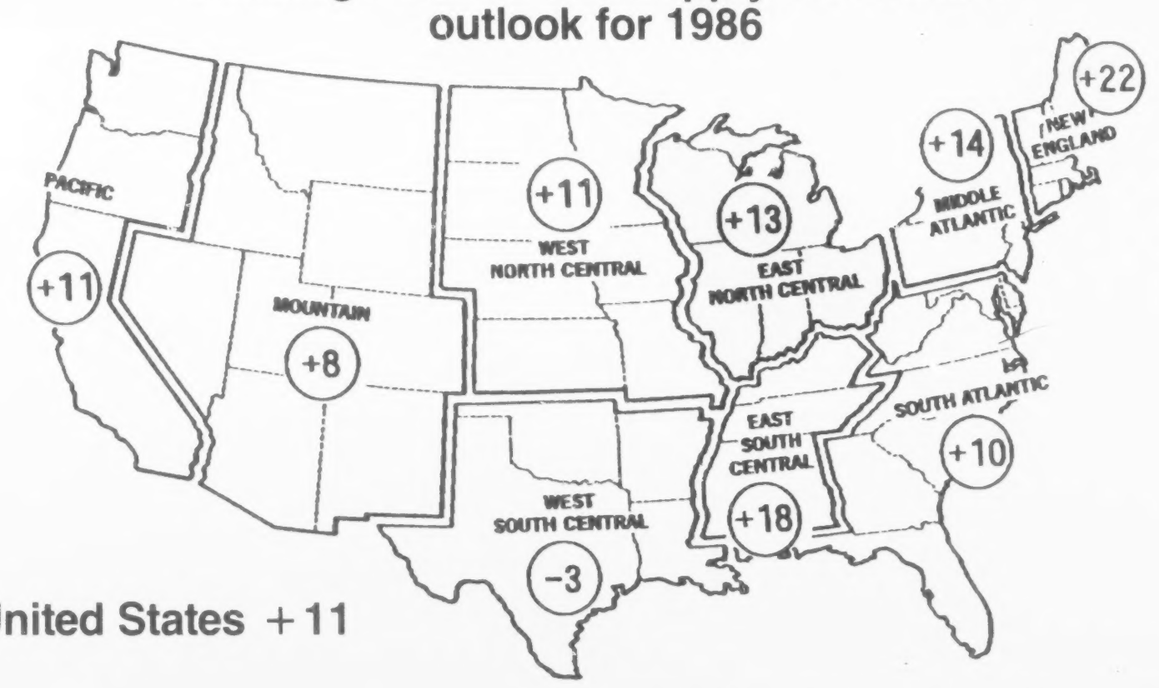
Wisconsin's sales of building materials will increase 13% this year. Capital goods employment will rise, but farm income from the large dairy sector will be unchanged. Resales rose 17% in 1985, but housing starts declined 1%. Employment is 2% higher than a year ago. Unemployment declined to 8.8%, from 9.3%.

Indiana

Indiana will be the weakest state in the region, with building material sales up only 11%. The state is a major steel producer with an agricultural concentration in corn. The capital goods sector will help the state economy. Resales rose 40% last year, but housing starts were up only 7%. Employment is up 4% from a year ago and the unemployment rate has fallen to 7.5%, from 9.9% a year ago.

Richard E. Mount is senior economist and manager of housing construction material research for Merrill Lynch Economics.

Building material and supply store sales outlook for 1986



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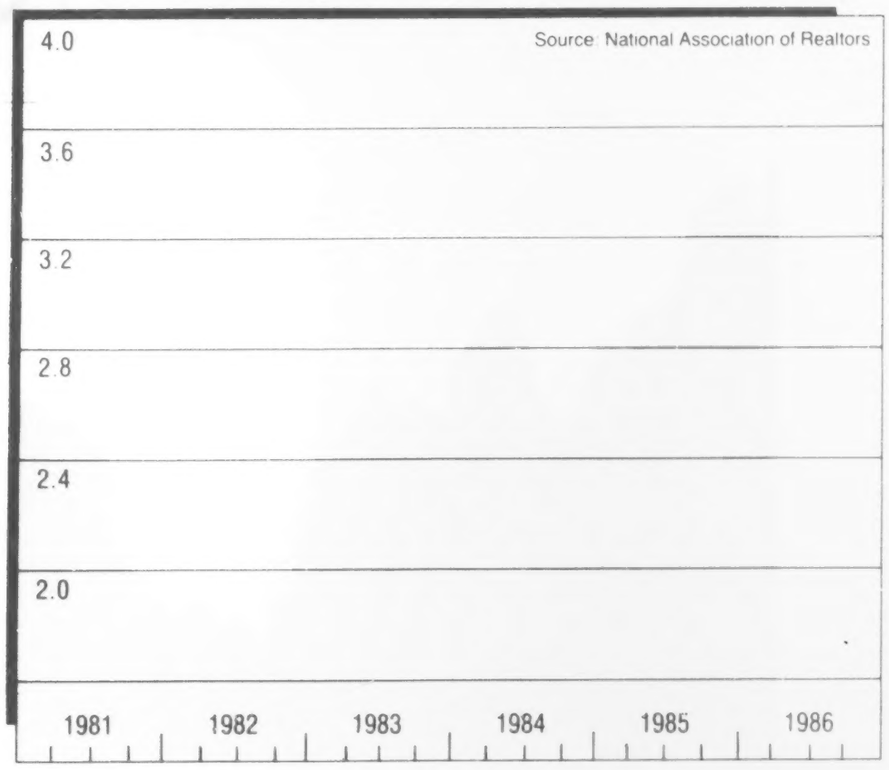
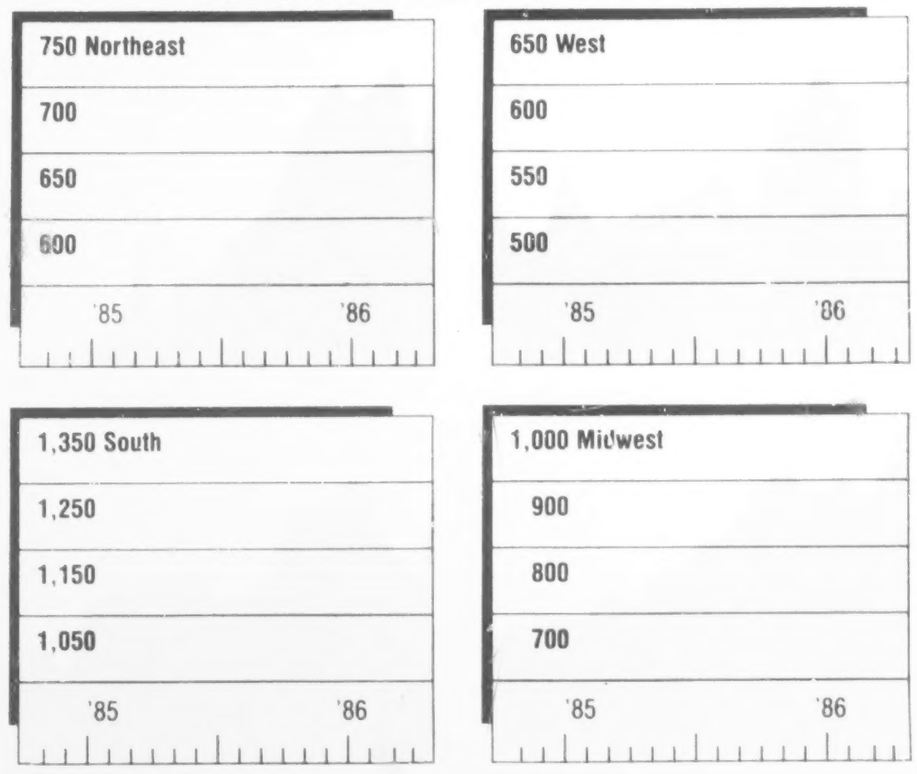
HOUSING WATCH

National existing single-family home sales
Seasonally adjusted annual rate (in millions of units)



Regional existing single-family home sales
Seasonally adjusted annual rate (in thousands of units)



Resales reach six year high

By an NHCN staff editor

NATIONAL REPORT — Declining mortgage rates are credited with pushing the home resale rate to its highest level in more than six years, to 3.56 million units, seasonally adjusted, the National Association of Realtors (NAR) reported.

Not since October 1979 has the resale home rate been this high, the NAR noted.

Activity rose 11.3% in April from a seasonally adjusted annual rate of 3.2 million units in March, a 17.8% increase over the April 1985 pace.

The Federal Home Loan Bank Board reported that in early April, the effective loan rate for previously occupied homes dropped to 10.37% from 10.67% in March.

Home prices appreciated just 1.6% nationally in April, to $81,100, which was 8.4% higher than the same period one year ago.

Although the resale pace was strong throughout the nation, the Midwest led the way with record-setting April activity. Sales of existing single-family homes in this region jumped 15.8% to 1.10 million units, seasonally adjusted, marking the first time the rate has been above the one-million-unit mark since October 1979, the NAR reported.

Compared to April 1985, activity in the Midwest soared 37.5%. Home prices appreciated just 2.8% from March, to $66,200, 13.2% ahead the period one year ago.

Activity was also strong in the South, rising 13% in April to 1.22 million units, seasonally adjusted, 7% higher than in the same month last year. Home prices, however, declined 1.3% to a median $78,500, but were still 5.7% higher than in April 1985 when the median cost of a previously occupied home was $74,300.

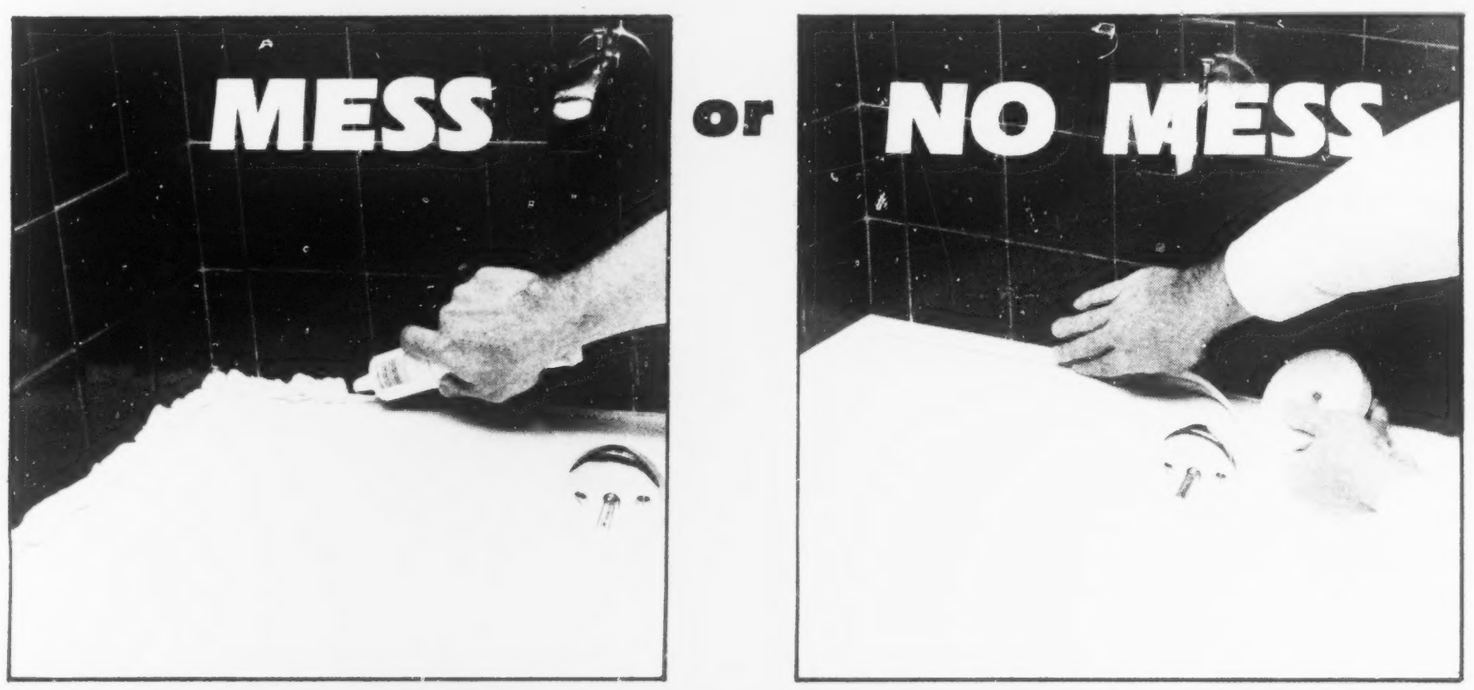
Home prices in the Northeast also rose modestly in April, by 2.7% to $104,700, but were still 19.1% ahead of last April's $87,900. The resale pace was very strong here, too, up 12.7% to 710,000 units, seasonally adjusted, 26.8% ahead of the 560,000 units recorded one year ago. The pace is being fueled by very strong resale activity in the Boston area, the NAR commented. There the resale pace is 30% ahead of last year.

Despite the absence of severe weather in the West in April, which stalled activity in February and March, sales of existing single-family homes remained steady. For the third consecutive month, the pace was 530,000 units, seasonally adjusted.

Median sales price
(in thousands of dollars)

	Apr.[p]	Mar.[r]	Feb.	Jan.
U.S.	81.8	79.8	77.4	77.1
Northeast	104.7	102.0	96.4	97.8
South	78.5	79.5	76.6	76.2
Midwest	66.2	64.4	62.1	60.0
West	100.4	97.1	95.5	95.5

[p]-preliminary [r]-revised
Source: National Association of Realtors



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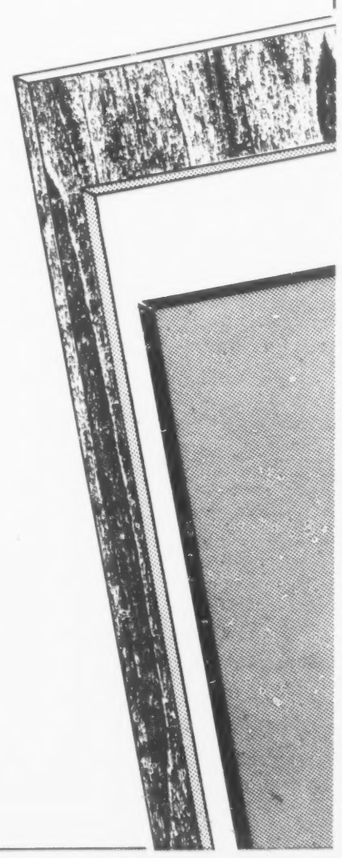

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LUMBER REPORT

Shake, shingle tariff rattles U.S./Canadian lumber producers

By Milford Prewitt
NHCN staff editor

NATIONAL REPORT—Greg Hayes said it took just one day for him to realize that it will never be the same buying Canadian shakes and shingles again.

Hayes, a lumber buyer for the Miami-based Ray Tylander, a builder sales lumberyard, said the price of a square (a standard unit or bundle equal to 100 sq. ft. of product) of Canadian red cedar shakes and shingles had gone up 30%, from $51 a square to $68.

For a company that sells five piggyback trailer loads of Canadian shakes and shingles a month, or about 1,300 squares, the increase in the price of the product will be passed on to customers and promises to be jarring.

ITC claims 'crippling' effect

Tylander's was probably among the first lumber dealers to experience the effects of the 35% tariff the House of Representatives added to the U.S. Trade Act on the product, and which was half-heartedly endorsed by President Reagan. Since coming to office, Reagan had condemned protectionist-type tariffs and had promised Canadian Prime Minister Brian Mulroney in the winter that he would fight import duties on Canadian products.

The new tariff had its roots in a recent finding by the International Trade Commission (ITC) that imports from Canada were crippling the American wood shakes and shingles manufacturers.

Opponents of the new tariff, aimed specifically at red cedar shakes and shingles—95% of which are harvested and manufactured in British Columbia—said the duty will devastate the lumber industry in Canada, raise the cost of housing in the U.S. and will advance the cause of American lumber manufacturers who have been advocating a tariff on framing lumber exported from Canada.

Gus Kuehne, vp for the Northwest Independent Forest Manufacturers, an association comprised of Washington, Oregon, and Idaho cedar growers and processors and the prinicipal advocates of the import duty, hailed the tariff as a needed means towards making American products more competitive with Canada

Tariff covers five years

The new tariff on shingles and shakes is designed to be in effect for the next five years with descending rates calling for a 35% tax the next two and a half years, followed by 20% the next year and a half and 8% the last six months.

It is expected to go into effect June 1.

The import duty caught many industry observers off guard for two key reasons.

First, shakes and shingles, whose wood-grain hues in dark reds, yellows, browns, and tan add a distinctive touch to roofs and siding exteriors for those who could afford them, were already expensive items to build or remodel with. Now they are expected to be priced beyond the financial reach of most people. Before the tariff, wood cedar shingles sold at retail for between $65 and $70 a square, compared to asphalt shingles at $17 to $25 a square.

Secondly, research from a recent survey shows that if the tariff was erected to protect the American shakes and shingles industry, it's too late. According to Mike Westfall, assistant manager of the Red Cedar Shingle & Handsplit Shake Bureau—a manufacturing association that represents both Canadian and American producers—there is only a 25-year supply of cedar timber standing in the U.S., compared to a 125-year supply in Canada.

But Kuehne disputed those estimates, arguing that American cedar forests will last until 2020 and he further charged that a great portion of Canada's cedar stands are in inaccessible areas.

Westfall, who declined to comment on the retail pricing implications or market consequences of the tariff, said it takes more than 100 years before cedar trees can be harvested and processed for building materials. He said there has been reforestation of cedar stands cutting has but the amount of in the U.S., eclipsed the resources replenishment.

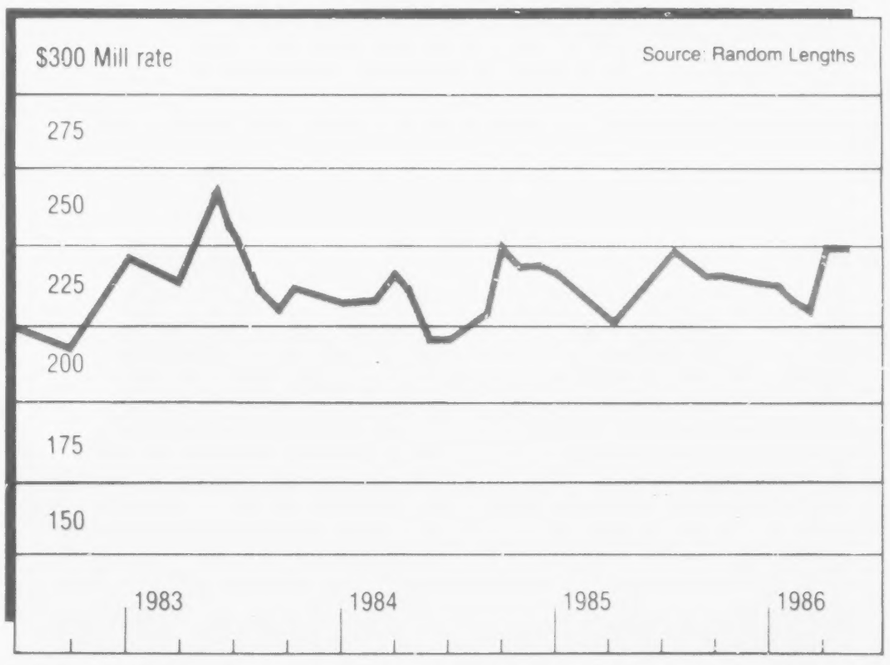
He said Canada harvests about 68% of the red cedar in North America, compared to 32% in the U.S., accounting for an industry that has averaged $250 million in sales for the past few years on 4 million squares of production. But he noted that 99% of Canada's production is imported to the U.S., all of it from mills in British Columbia.

(Continued on page 47)

Commodity close-up

Composite lumber/plywood price profile

(per thousand board feet)



Lumber and plywood price levels were flat during the month of April. For the second month, plywood was selling at $225 per thousand bd. ft. for a monthly average. The framing lumber average surged up by $3 from a March average of $229 per thousand bd. ft. to $233 in April.

Futures

LUMBER (CME)—130,000 bd. ft. spruce-pine-fir 2x4's; $ per 1,000 bd. ft.
Two weeks ended May 22, 1986

	High	Low	Close (Settle)	Previous Week	Open* Interest	Contract High	Contract Low
July '86	180.20	166.50	166.70	179.30	3,882	190.90	144.00
Sept.	173.20	162.00	162.60	172.60	1,347	182.40	145.50
Nov.	166.90	158.20	159.00	166.00	1,064	174.50	146.00
Jan. '87	170.00	162.00	163.00	170.80	291	175.00	150.00
March	171.00	162.50	164.10	170.50	167	175.50	153.00
May	170.50	163.20	163.20	170.50	43	173.00	160.00
July		No	Trading				

Total Contract Vol. (Through5/22): 23,213 **Previous Two Weeks: 23,049**
Total Open Interest (As of 5/22): 6,812 **Previous Week: 8,548**
Cash Price: $179.34 **Previous Week: $185.22** **Year Ago: $169.54**

CME—Chicago Mercantile Exchange
*Figures for Thursday, May 22
Open Interest is the number of outstanding contracts for each delivery month not liquidated by an offsetting transaction or fulfilled by delivery.

Scotty's enters electronic age at Florida conference

(Continued from page 1)
professionals, and suppliers from this young, venture capitalist-funded industry.

Scotty's, the 128-store, Florida chain, has entered into a partnership with Owens-Corning Fiberglas, the building material supplier; P-O-P Video, a San Antonio firm that will supply the laser disc players and produce the product videos; and Moore-Symons, an Atlanta research firm that will help Scotty's evaluate the program.

"We are information driven," said Dave Bryant, Scotty's vp/sales promotions manager. "We see this as an integral part of the info desk in our new format stores."

The kiosks will be tested in 10 stores this fall, said Bryant. Some 15 vendors are lined up to co-sponsor different how-to segments on the video disc. If the test proves successful, based on incremental sales increases and both customer and store employee response to the new system, Scotty's will it roll out chainwide.

Scotty's joins other home centers that have tested in-store, electronic info systems:

- Rickel, South Plainfield, N.J., has been using a How-To Genius from LaserMedia in its 42 stores. Rickel's president Chuck Davis told *NHCN* that the chain was looking to enhance the Genius.
- Builders Emporium, in Irvine, Calif., earlier this year rolled out a highly interactive touch-screen laser disc kiosk in all 63 of its outlets. BE's system was hailed at the conference by Thomas Rauh, Touche Ross' national services director for retail consulting, as one of the foremost examples in all retailing for providing shoppers with product demos as well as adding to existing information services, such as the chain's Pop Larsen telephone answerman.
- Home center and hardware firms now using a smaller version of the P-O-P terminal to be utilized by Scotty's include Bering's, Elliott's and Stripling Blake, in Texas; Builderama, Savannah, Ga.; and All American, Downey, Calif.

While Bryant and Bill Matthews, director of marketing and merchandising for Lanoga Corp., were the only retail home center executives in attendance, many of the 26 exhibitors at the conference indicated to *NHCN* that they were involved in active negotiations with a number of other building supply retailers whom they couldn't identify.

Lanoga, the Seattle company that owns United Building Centers, Lumbermen's and Spenards, hopes to test an electronic shopping system by 1987, said Matthews.

Both Matthews and Bryant felt that manufacturers, already facing unprecedented demands from retailers on their pricing and co-op advertising policies, can't be expected to bear the full costs of these systems.

Glenn Osborn, marketing communications manager for Owens-Corning's interior products operating division, foresees the rise of "information wholesalers," third-party operators who traffic video and computer data between manufacturers and retailers. Significantly, says Osborn, these third-parties would carry the capital costs of the system, owning it and paying for it out of revenues from manufacturers and retailers.

Rauh feels that electronic shopping has excellent potential. He predicted the number of suppliers in the industry will grow from last year's 200, to 300 by the end of this year, and hit 400 by 1990. He also predicted the number of installed systems to increase from 15,000 last year to over 30,000 by the end of this year, and to over 100,000 by 1990.

FCC rules on radio signals from garage door openers

(Continued from page 1)
the three biggest manufacturers of these products. He added that the retail cost of the units would probably rise $30 to $50 to about $200.

"The financial implications are terrifying," asserted one industry manufacturer."

The FCC's goal is to stop radio interference emitted by the openers from affecting other frequencies, particularly in "forbidden bands," reserved for specific other purposes, like radio navigation and radio astronomy.

Robert Bromery, deputy chief of the authorization and evaluation division of the FCC, which administers all equipment authorizations, said, "these devises are generating a lot of interference or have the potential for interference" in certain forbidden bands above low levels the FCC has deemed acceptable.

The FCC contends that the new rules should prevent potential interference problems for government aviation equipment, noting that there are no reported incidents of such interference, "And there better not be," asserted Bill Gamble, deputy associate administrator in the office of the spectrum manager at the National Telecommunication and Information Administration (NTIA). This worsens as the numbers in use increase.

DORCMA contends that the new FCC rules are too strict and would mean that manufacturers would have to retool their plants and develop the technology to meet the requirements, because, they claim, it currently doesn't exist—a statement disputed by a components manufacturer.

Retooling, the association contends, is expensive and would take the larger companies between two and three years to complete and could wipe out many smaller firms.

Bromery of the FCC said the issue should be settled within the year.

The tug of war between the FCC and DORCMA started Sept. 1, 1983, when the FCCtried to strengthen the garage door opener codes.

The rules have yet to be enforced because DORCMA and the Security Equipment Industry Association won a stay of the new code soon after that date. Manufacturers have been operating under that stay ever since.

Separate discussions among various parties have been held over the last several years, but the most recent one, held on May 23 in Washington, where all the parties met together to discuss the codes.

The FCC permits the garage door opener industry to operate freely within certain radio frequencies. They are not allowed, however, to emit any interference, but must accept emissions from other frequencies, sources explained.

Home center dealers expect strong '86 after turning in mixed first qtr. results

(Continued from page 1)
increase in earnings, and Hechinger a 29.3% increase.

"Lowering of interest rates has caused the highest rate of existing housing turnover we've seen since 1977-78," said Stephen A. Lightstone, cfo of Payless Cashways, Kansas City, Mo. "For us, that has to be positive."

Payless, which will report its second quarter earnings in mid-June, said that for a five-month period ended April 30, sales rose 12% to $563 million, and same store sales rose 7%.

Bo Cheadle, the analyst covering the industry for Montgomery Securites, San Francisco, noted that low interest rates, housing turnover, and mortgage refinancing should together spur a rebound in the industry.

Beyond the external economic factors, home centers should also benefit from changes now underway in the industry itself, said Cheadle. "Price competition has eased dramatically in the past six months," he said.

Chains are competing less on price now, resulting in an upswing in margins and on the bottom line.

The biggest surprise during the quarter was the earnings report from The Home Depot, the Atlanta-based chain that has benefitted from the phenomenon Cheadle described. Gross margins there went up 300 basis points. Bernard Marcus, chairman, noted that the chain has redirected its efforts away from opening new stores, and toward better monitoring of merchandise performance, and retraining store personnel.

Hechinger reported gross margin increases of 100 basis points, to bring about the second-best earnings results in the quarter among the public companies that have already reported their results.

Another surprise was the 4% earnings decline reported by Lowe's, based in North Wilkesboro, N.C. The company attributed the decline largely to its stores in depressed Texas and Oklahoma

Scotty's, another southern chain, reported a 17.5% drop in earnings. The company said that builder business was picking up and that April had been the best month in two years for the chain.

Chains in the Midwest and northern states seemed to report better results than did those in the South. Wolohan Lumber reported a 20% increase in same store sales, and a 22% increase in sales to $28.1 million for the quarter that ended March 31.

Erb Lumber, Birmingham, Mich., reported a 30% increase in sales, to $35.1 million for the quarter. Like Wolohan, Erb reported a loss for the three-month period. Both companies generally do so for the year's first quarter.

Lloyd Home Centers, the chain of 35 stores based in Danbury, Conn., reported that sales were running 5% ahead of budget for the first five months of this year.

Performance Analysis First Quarter Ended 4-30-86

	Same Store Sales (% increase)	Total Sales ($ million)	Change From Prior Period (%)	Earnings ($ million)	Change From Prior Period (%)
Color Tile	3.1	97.9	8.0	3.4	8.2
Hechinger	2.0	136.9	19.5	4.9	29.3
Handyman	3.6	62.6	0.8	– 0.2	*
The Home Depot	2.0	222.6	53.5	5.1	164.2
Lowe's	8.0	534.0	18.1	11.4	– 4.2
Scotty's	2.0	128.4	5.5	4.1	– 17.5
Standard Brands Paint	– 8.0	77.8	– 3.8	3.3	– 31.2
Wolohan	20.0	28.1	21.9	– 0.1	63.9

The three-month period ended around March 31 for Color Tile and Scotty's.
*Profit of $2.5 million, for the same quarter in 1985. Handyman's quarter ended April 19.
Source: Company reports. *NHCN* chart.

Hechinger, Home Depot and Wolohan experienced high earnings gains in the year's first quarter. Wolohan's same-store sales boost was due to economic conditions in its Midwest trading area.

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